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PRODUCTION LINKED INCENTIVE (PLI) SCHEME

WHY IN THE NEWS?

The central government has granted Rs 4,415 crore in incentives through its flagship Production-Linked Incentive (**PLI**) schemes for up to eight industries. With an estimated investment of more than Rs 3 lakh crore, 746 applications have been approved thus far in **14 different sectors.** The PLI beneficiaries include over 176 MSMEs in industries like telecom and pharmaceuticals.

ABOUT PRODUCTION LINKED INCENTIVE

- The Production Linked Incentive (**PLI**) scheme was introduced in **March 2020** to stimulate Indian industry. As part of the Make in India strategy, it provides **five-year incentives** to qualified enterprises based on incremental sales growth. The initiative intends to lessen India's reliance on foreign countries such as China while increasing employment in labor-intensive industries.
- It promotes both global and domestic enterprises to establish or develop production facilities in India. The PLI initiative encourages foreign investment in cutting-edge technology, stimulates exports, and connects India to the global supply chain. To qualify for PLI benefits, interested enterprises must first meet certain eligibility requirements.

GOALS OF PRODUCTION LINKED INCENTIVE (PLI) SCHEME

- **Complying with WTO obligations** and promoting equitable treatment for both domestic sales and exports are the primary goals of the PLI system.
- It seeks to **increase exports**, draw in foreign capital into core industries and cutting-edge technology, and promote economic expansion.
- The PLI programme provides a number of advantages, such as tax breaks, reduced import and export taxes, accessible property acquisition, and assistance for anchor investors spearheading new ventures.
- The programme is accessible and successful since it promotes investments in labor-intensive industries and sustainable development.

PERFORMANCE OF PRODUCTION LINKED INCENTIVE SCHEMES

- **INCREASE IN EXPORTS**:

1. India is anticipated to have shipped mobile handsets worth Rs 90,000 crore in FY23, having doubled the value of such exports in FY22 to Rs 45,000 crore over FY21.

2. In the pharmaceutical sector, 35 active pharmaceutical ingredients (APIs), which we previously had to import from nations like China, are now produced in India. India's imports have decreased as a result.
3. Exports under these schemes have exceeded Rs 3.2 lakh crore, with telecom, electronics, pharmaceutical, and food processing industries making major contributions.

- **Decrease in Imports**

1. The PLI Scheme has resulted in a significant reduction in raw material imports for the pharmaceutical industry. India manufactures unique intermediate materials and bulk pharmaceuticals, such as Penicillin-G.The production of 39 medical devices has begun, including a CT-Scan, Rotational Cobalt Machine, Linear Accelerator (LINAC), C-Arm, MRI etc.
2. Import substitution of 60% has been accomplished in the telecom industry, with PLI beneficiary enterprises selling telecom and networking products in FY 2023-24.With a Compounded Annual Growth Rate (CAGR) of 90.74%, the Drone sector has seen significant investment.

- **SLOW IMPLEMENTATION**

1. So far, the PLI plans have not been implemented very quickly.The government's incentive awards for the mobile handset, white goods (ACs and LEDs), and food processing industries together were just Rs 10 crore in 2021–2022, which indicates a slight rise in production.
2. According to DPIIT, this amount increased to Rs 2,874 crore in 2022–2023.
3. Roughly 1.46 per cent of the Rs 1.97 lakh crore incentive spending was paid out in the first two years of the seven-year initiative. Either they haven't adopted the plan yet or they haven't started any significant operations under it.

LESS NUMBER OF JOBS CREATED:

There have also been fewer employment generated as a result of the delayed start. Out of the 6 million additional employment expected over the course of seven years, only about 300,000 jobs (or 5% of the total) have been produced through the various PLIs between 2020 and early 2023.

BENEFITS OF PRODUCTION LINKED INCENTIVE (PLI) SCHEME

- **Stimulating Manufacturing Competitiveness**: Production Linked Scheme incentivize manufacturers to enhance their production capabilities, adopt advanced technologies, and improve overall efficiency. This increased competitiveness contributes to the growth of the manufacturing sector.
- **Enhancing Productivity**: Companies participating in PLI schemes are encouraged to adopt best practices and improve their production processes. This leads to increased productivity, which is essential for sustained economic growth.
- **Attracting Foreign Direct Investment (FDI)**: By offering financial incentives to companies engaged in specific industries, PLI schemes make the domestic market more attractive to foreign investors. This influx of FDI not only boosts the particular sector but also strengthens the overall economy.
- **Technology Adoption and Innovation**: To qualify for incentives, companies often need to invest in and adopt cutting-edge technologies. This promotes innovation, research, and development, driving technological advancement within the targeted sectors.

- **Job Creation**: Increased production and growth in targeted industries lead to the creation of more job opportunities. PLI schemes, by fostering a conducive environment for manufacturing, contribute significantly to reducing unemployment and underemployment.
- **Export Promotion**: PLI schemes frequently have provisions that incentivize companies to focus on export-oriented production. This not only helps in balancing trade deficits but also positions the country as a competitive player in the global market.
- **Global Competitiveness**: The financial incentives provided by PLI schemes enhance the competitiveness of domestic industries globally. This not only attracts international investment but also allows domestic companies to compete more effectively in the international market.

ISSUES FACED BY PRODUCTON LINKED INCENTIVE SCHEME

- **Administrative Challenges**: The implementation of PLI schemes often involves complex administrative processes. Managing the disbursement of incentives, verifying production targets, and ensuring compliance can be challenging, especially in sectors with numerous small and medium enterprises.
- **Delayed Implementation**: Delays in announcing and implementing PLI schemes can hinder their impact. The time taken for the government to finalize the policy details, set benchmarks, and establish the necessary infrastructure can result in a slow start for the intended beneficiaries.
- **Sectoral Bias**: The focus of PLI schemes on specific sectors may create imbalances, favoring some industries over others. This could lead to neglect of potentially important sectors and hinder a more holistic approach to economic development.
- **Quality vs. Quantity Dilemma**: Some critics argue that Producton linked incentive schemes, which often incentivize higher production volumes, may inadvertently compromise product quality. Manufacturers may prioritize quantity to meet targets and receive incentives, potentially overlooking product standards.
- **Global Trade Challenges**: In sectors aiming for export promotion through PLI schemes, global trade challenges such as trade barriers, geopolitical tensions, and fluctuations in demand can impact the effectiveness of the incentives in fostering international competitiveness.
- **Financial Constraints**: Governments may face financial constraints in funding PLI schemes, especially when dealing with large-scale industries. Ensuring a consistent and substantial budget for incentives is crucial for sustaining the impact of the scheme over time.
- **Bureaucratic Red Tape**: The bureaucratic processes involved in availing incentives can be cumbersome, discouraging businesses from participating. Streamlining administrative procedures is crucial to ensuring that the benefits of PLI schemes reach the intended recipients efficiently.

CONCLUSION:

One important programme to increase domestic manufacturing, lessen reliance on imports, and promote economic growth is the Production Linked Incentive (PLI) scheme. Furthermore, the PLI scheme has enhanced India's export competitiveness and helped the country integrate into the global supply chain. Nevertheless, the programme has encountered difficulties, such as financing limitations, strict eligibility requirements, and implementation delays. It is imperative that these problems are continuously addressed in order to optimize the advantages of the PLI system.

PRELIMS PRACTICE QUESTION

Q1) Consider the following statements regarding Micro, Small, and Medium Enterprises (MSMEs)

1) The maximum investment limit for a Small enterprise in the manufacturing sector is 10 crores.
2) The Ministry of Commerce and Industry is responsible for overseeing and implementing policies related to MSMEs in India.
3) Primary objective of the Credit Guarantee Fund Trust for Micro and Small Enterprises is to provide collateral-free credit to MSMEs

How many of the above statements are correct?

a) One
b) Two
c) Three
d) None

ANSWER: B

MAINS PRACTICE QUESTIONS

Q1) Explore the concept of Industry 4.0 in the context of Indian manufacturing. How can the adoption of advanced technologies enhance efficiency and competitiveness?

Q2) Discuss the role of government support in fostering innovation and R&D in the manufacturing sector. What policy measures can further encourage technological advancements?

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